

Special City Council as Shareholder of Guelph Municipal Holdings Inc. Meeting Agenda

Consolidated as of February 10, 2017



**Wednesday, February 15, 2017 – 6:00 p.m.
Council Chambers, Guelph City Hall, 1 Carden Street**

Please turn off or place on non-audible all electronic devices during the meeting.

Please note that an electronic version of this agenda is available on guelph.ca/agendas.

Changes to the original agenda have been highlighted.

Call to Order – 6:00 p.m.

Disclosure of Pecuniary Interest and General Nature Thereof

Guelph Municipal Holdings Inc.: Strategies and Options

**GMHI-2017.1 Assessment of Strategies and Options Relating to Guelph
Hydro**

Presentation:

**Strategies and Options Committee Phase 1 Report – Derrick Thomson, Chief
Administrative Officer**

Delegations:

**Janice Fold-Dawson on behalf of the Guelph and District Labour Council
Peter Miller
Kithio Mwanzia representing the Guelph Chamber of Commerce
Ron East
Ted Pritchard
Donna Jennison
Steve Dick, President, Guelph Solar
Paul Costello
Terry O'Connor
Hugh Whiteley
Dr. Dennis Galon
Kari Clifford on behalf of the International Brotherhood of Electrical Workers
Local 636 (Unionized Employees of Guelph Hydro)**

Correspondence:

Glen N. Tolhurst

Recommendation:

1. That the Strategies and Options Committee (the "SOC") of Guelph Municipal Holdings Inc. ("GMHI") further examine the following options for Guelph Hydro Electric Systems Inc. ("Guelph Hydro"):
 - (a) Sale of all or part of Guelph Hydro to one or more interested purchasers; and,
 - (b) Merger of Guelph Hydro with one or more other local electricity distribution companies ("LDCs").
2. That in carrying out Recommendation 1, the SOC:
 - (a) conduct an environmental scan of potential transaction partners and potential transactions, with the assistance of an independent advisor, in order to compare the sale and merger options against maintaining full ownership;
 - (b) enter into preliminary discussions with potential transaction partners to discover whether a sale or merger could satisfy the decision-making criteria adopted by the SOC; and
 - (c) continue its public and stakeholder engagement to inform its work,but, without receiving further Council direction, SOC shall not make commitments to any potential transaction partner, whether binding or not, apart from entering into confidentiality agreements and other ancillary agreements to complete its preliminary assessment of a potential transaction.
3. That the SOC report back to Council by mid-2017 with the results of the examination and a recommendation regarding next steps.

Adjournment

STRATEGIES AND OPTIONS COMMITTEE PHASE 1 REPORT

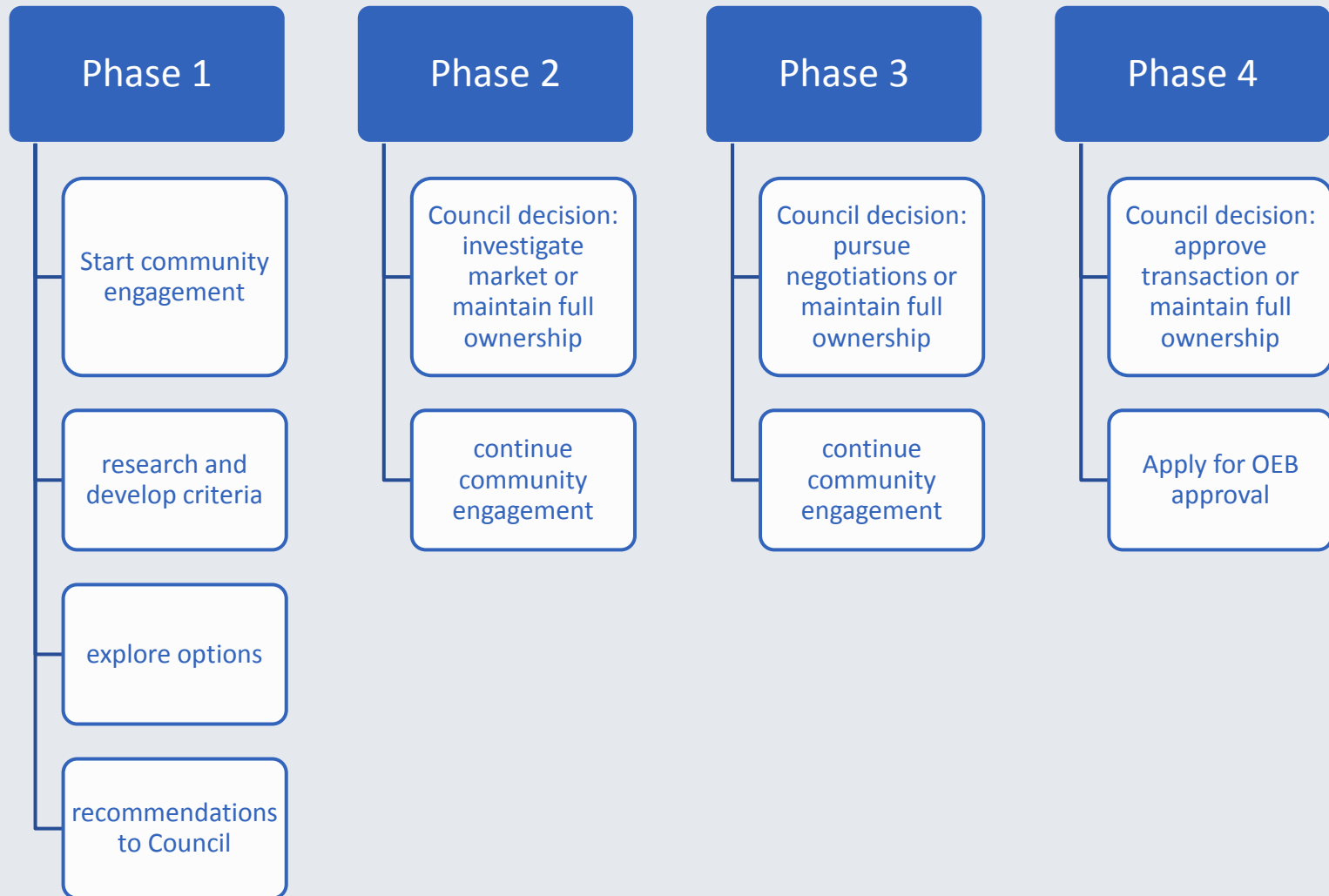


Ontario's electricity sector is changing. Let's make sure we keep getting great service and value for Guelph Hydro customers, the City of Guelph and our community.

PROCESS TO DATE



PHASES



ROLES AND RESPONSIBILITIES

Guelph City Council as Shareholder

- Make decisions about City-owned assets
- Appoint members of GHESI board and SOC

Guelph Hydro (GHESI) Board of Directors

- Oversee management and operations of GHESI
- Offer expertise and advice to SOC and City Council

Strategies and Options Committee

- Review options for Guelph Hydro and make recommendations to City Council

WHY NOW

Policy and industry environment

- Provincial pressure/encouragement to consolidate
- Recent activity/premiums being paid
- Responsible approach to asset management

WHY NOW

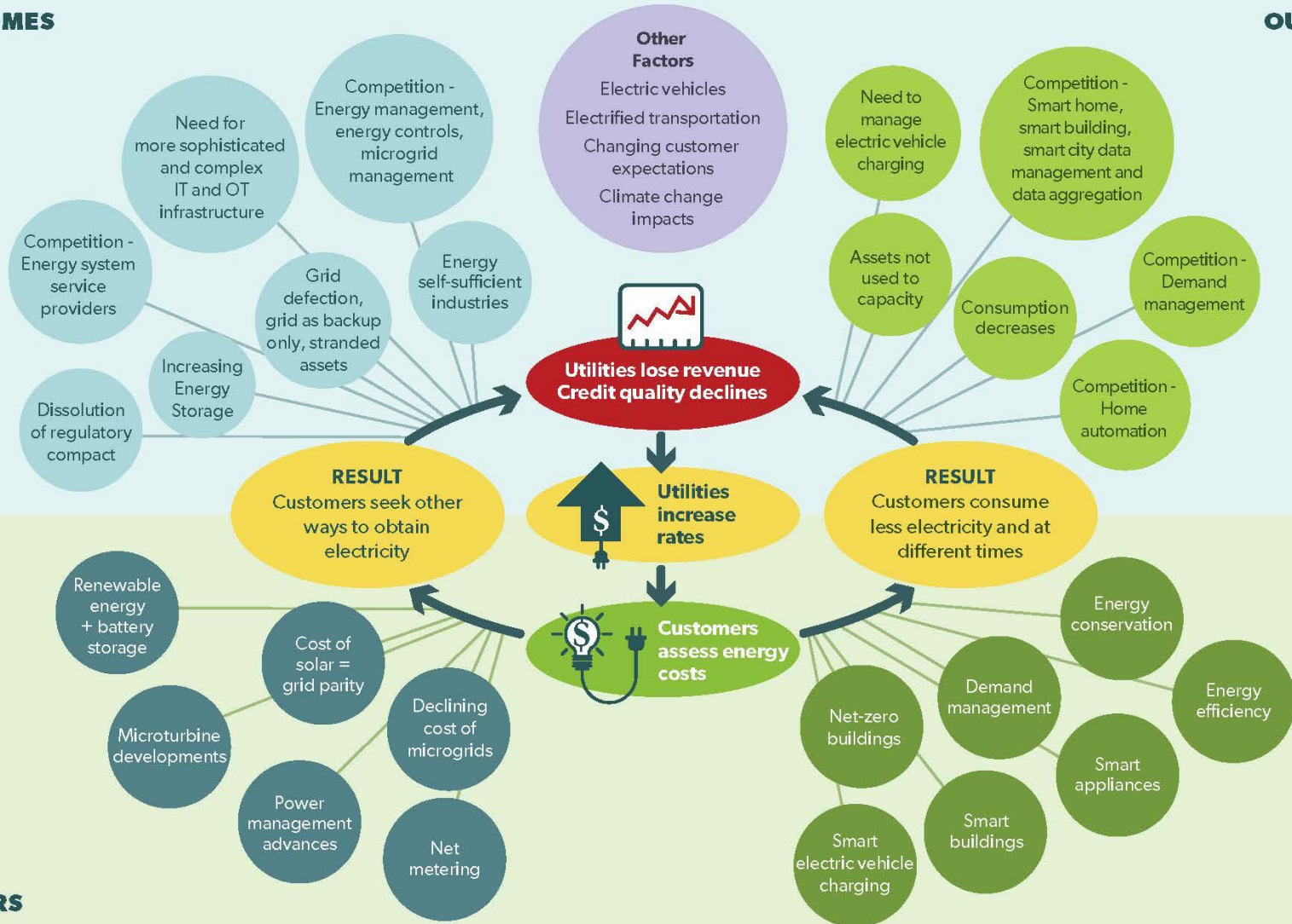
Advances in technology

- Fast pace of technology changes
- Consumer behaviour and expectations
- Infrastructure and financial implications
- Changing role of electricity utilities

Disruptions to the Existing Utility Business Model

OUTCOMES

OUTCOMES



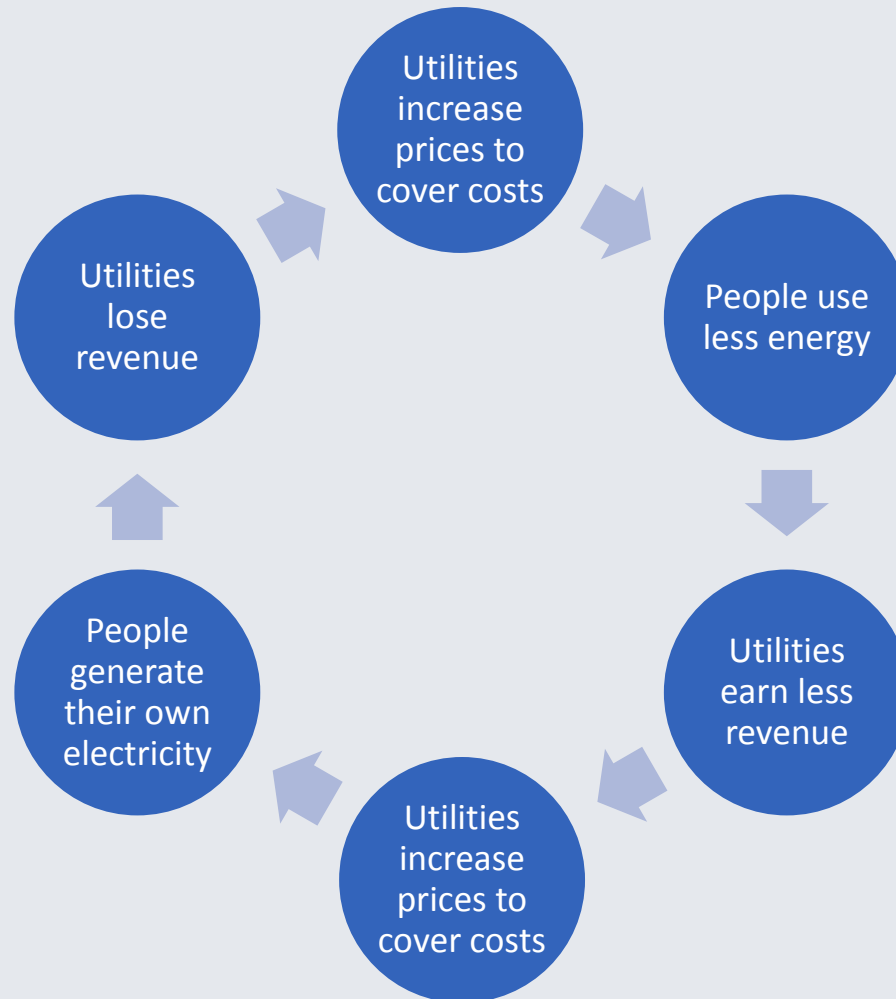
Alternative Energy Sources and Disruptive Technologies Challenge Conventional Utility Business Model

Behind-the-meter self-generation with microgrid backup could make the electricity grid optional and replace utilities with distributed energy system service providers

Energy Efficiency Erodes Traditional Utility Revenue Model

Flat or shrinking per customer electricity volumes result in declining utility revenues. Rising fixed rate distribution charge could result in grid defection and stranding of assets.

CHALLENGES IN THE ELECTRICITY SECTOR



WHY NOW

The electricity sector is changing

- Now is the time to consider options **while the utility is strong and stable**
- The question is not whether to change but how, and when
- How quickly can we adjust our business model to ensure we have technical resources and financial capacity to thrive in the long-term

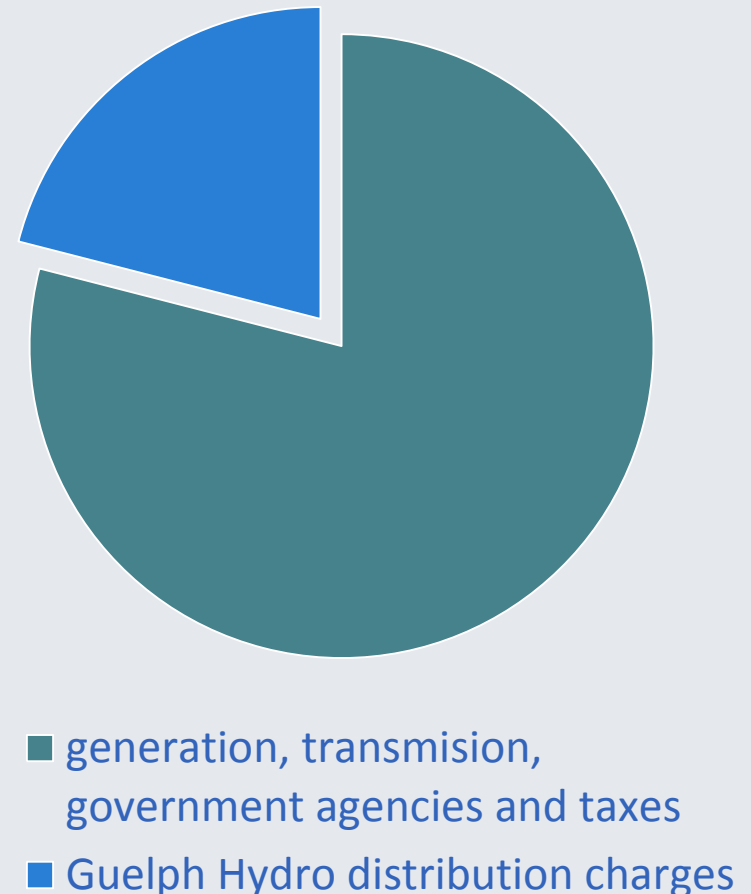


**WHAT ARE
THE OPTIONS?**

UNDERSTANDING ELECTRICITY CHARGES

About electricity rates

- About **21%** of the charges on an average residential bill are related to Guelph Hydro's costs of distributing electricity to the community.
- 79% of the bill pays for generators, transmitters, government agencies and taxes
- The Ontario Energy Board (OEB) will continue to monitor and set electricity rates in the public interest regardless of which ownership arrangement exists in Guelph.



MAINTAINING FULL OWNERSHIP

Guelph Hydro could continue operating as it does today, wholly-owned by the City of Guelph, and make continuous improvements such as small acquisitions and collaborative business arrangements (e.g. shared services and/or a cooperative model to realize economies of scale.)

Positive	Negative
<ul style="list-style-type: none">• No major acquisition investment required• No implementation costs• Preserve existing community presence• Retain local jobs• Guelph Hydro continues to maintain control of its local electricity distribution assets• Guelph Hydro maintains current influence over local distribution rates and infrastructure upgrades• Current dividend payments continue in the short term	<ul style="list-style-type: none">• Electricity distribution rates may go up• Guelph Hydro customers may not get the same services people get from larger utility companies• Guelph Hydro may be less able to invest in system maintenance, upgrades, major back office systems and new technologies• Guelph Hydro may be less able to continue to find new efficiencies• Dividends to the City could decrease• Guelph Hydro equity value might not increase

BUY

Guelph Hydro would acquire all or part of one or more other electricity distribution utilities and would continue to be wholly-owned by the City of Guelph.

Positive	Negative
<ul style="list-style-type: none">• Larger scale of operations could create efficiencies and have positive impact on electricity distribution rates• Larger utility could invest more in system maintenance and upgrades• Likely to increase dividends to City• Likely to increase equity value of Guelph Hydro• Guelph may maintain influence over local electricity distribution assets• Larger utility would have a stronger position if negotiating future consolidation	<ul style="list-style-type: none">• It would be difficult for the City of Guelph and Guelph Hydro to raise the substantial cash investment required to buy a utility that could achieve the potential benefits• Market values for electric utility companies are currently high, increasing cost of acquisition• Potential job redundancies

SELL

The City of Guelph could sell some or all of Guelph Hydro shares to another public or private party or parties.

Positive	Negative
<ul style="list-style-type: none">• City of Guelph would receive substantial cash that could fund ongoing community investments• Depending on the details of the transaction, other potential benefits include:<ul style="list-style-type: none">• Lower electricity distribution rates• Improved services• Access to better financing rates, and more capacity to invest in system maintenance and upgrades• Administration and operational efficiencies	<ul style="list-style-type: none">• City of Guelph would no longer receive annual dividend• Potential loss of local operations and/or responsiveness• Some transfer tax may apply to cash received (private)• Guelph Hydro would no longer influence local distribution rates or infrastructure upgrades• Guelph Hydro would not participate in future consolidation negotiation(s)• Potential job redundancies

MERGE

Guelph Hydro would merge with one or more utilities, and their respective shareholders (including the City of Guelph) would take proportional ownership interests in the new merged utility.

Positive	Negative
<ul style="list-style-type: none">• Cash investment not likely required• Potential positive impact on electricity distribution rates• Increased scale of operations could create efficiencies• Access to better financing rates, and more capacity to invest in system maintenance and upgrades• Retain some community presence, local operations and responsiveness• Could participate in future consolidation• Likely increase to dividend payments• Likely increase in equity value	<ul style="list-style-type: none">• Potential discord between merged partners• Potential challenges with employee retention, productivity and engagement during transition and implementation• Guelph Hydro would have less influence on local distribution rates and infrastructure upgrades• Potential job redundancies



DECISION-MAKING CRITERIA

OEB NO HARM TEST

Any proposal to buy, sell or merge electricity utility assets must meet Ontario Energy Board statutory requirements:

- To protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service
- To promote economic efficiency and cost effectiveness
- To promote electricity conservation and demand management
- To facilitate the implementation of a smart grid in Ontario
- To promote the use and generation of electricity from renewable energy sources

DECISION-MAKING CRITERIA

Value for customers

Protect consumers with respect to electricity distribution rates
Meet or exceed current quality, safety and reliability of service
Meet or exceed current customer service standards
Maintain or enhance service and systems through innovation and technology



Value for community

Continue or enhance conservation and demand management programs
Support development of provincial smart grid
Encourage use and generation of electricity from renewable sources
Advocate for local interests among regulators, industry and other levels of government
Provide local jobs



Value for the City

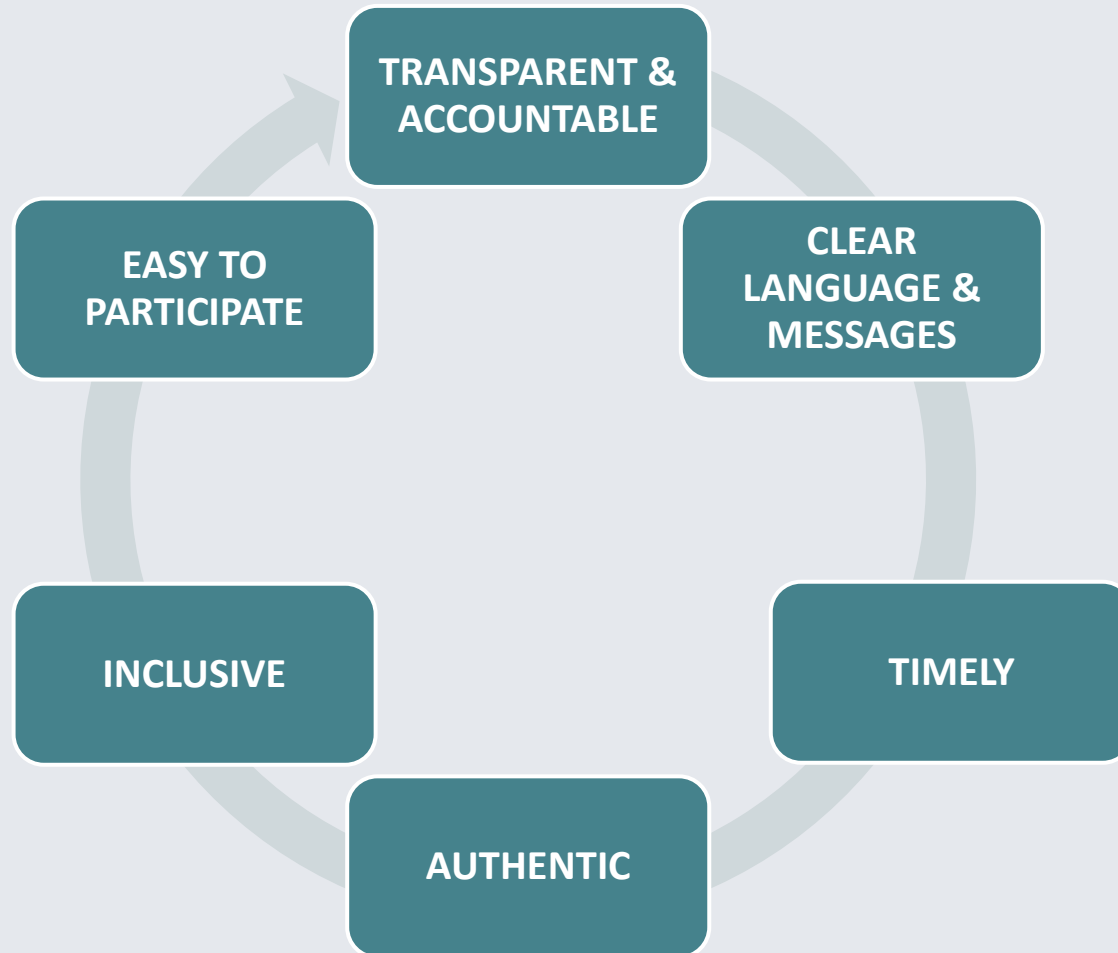
Realize the best financial return and overall value
Supply electricity efficiently and cost-effectively
Contribute capital funds for reinvestment
Support long-term community planning and economic development



PHASE I ENGAGEMENT REPORT



ENGAGEMENT PRINCIPLES



ENGAGEMENT ACTIVITIES



Website
Q & A and
online poll



City of
Guelph and
Guelph
Hydro social
media



Public
sessions in
Guelph and
Rockwood



Telephone
poll



Public
meetings of
Guelph City
Council



ENGAGEMENT ACTIVITIES



Community
groups
organizations



Business
community



Large
Guelph Hydro
customers

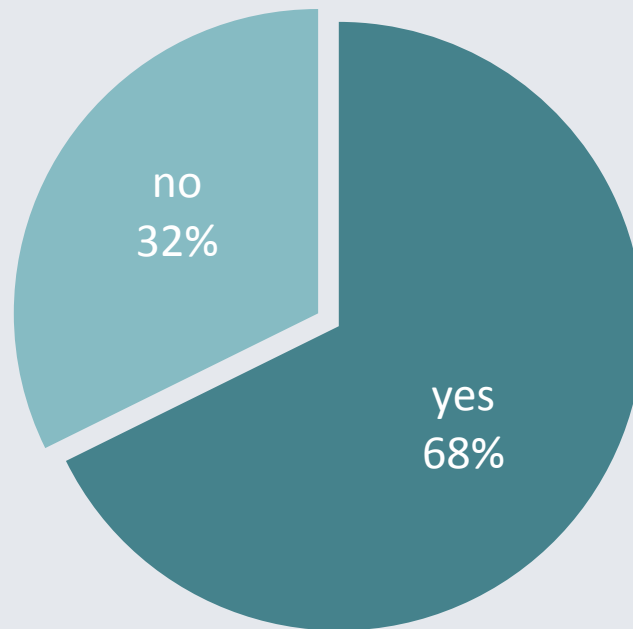


GHESI
employee
meetings



SUPPORT FOR DECISION-MAKING FRAMEWORK

Participants were asked whether the City is “right” in giving equal consideration to Guelph Hydro customers, the City of Guelph as shareholder and the community as a whole:



TOP-RANKED DECISION-MAKING CRITERIA

Rates

- Protect consumers with respect to electricity distribution rates; supply electricity efficiently and cost-effectively.

Service

- Meet or exceed current quality, safety and reliability of service.

Community Planning

- Support long-term community planning and economic development.

Environment

- Encourage use and generation of electricity from renewable sources; continue or enhance conservation and demand management programs.

Local Jobs

- Preserve and provide local jobs.

KEY THEMES

Rates

- Top concern of participants; includes frustration at current electricity rates in the province, and concerns about the impact a potential transaction could have on rates.

Service

- People want to ensure Guelph Hydro's positive track record of efficient and reliable service is preserved.

Potential transaction

- Large segment of participants want to maintain local control and public ownership; low-level of support for sale, especially with a privately-owned utility; if a merger is considered, respondents prefer other utilities in the region and those who are "like-minded" with Guelph Hydro.

KEY THEMES

Environmental sustainability

- The use and generation of electricity from renewable sources, as well as energy conservation programs, were important to a notable segment of participants.

Public information sharing

- People want more information about the options being considered, such as financial analyses; participants want the City to continue seeking public input throughout the asset review process.



ASSESSMENT OF OPTIONS

ASSESSMENT OF OPTIONS

CUSTOMERS	BUY	SELL	MERGE	MAINTAIN
Electricity prices	Could decrease or stay the same	Should decrease or stay the same	Should decrease or stay the same	Inflationary increases expected
Quality, reliability	Preserved	Preserved	Preserved	Preserved
Customer service	Preserved	Preserved	Preserved	Challenged
Innovation, technology	Enhanced	Enhanced	Enhanced	Challenged

ASSESSMENT OF OPTIONS

COMMUNITY	BUY	SELL	MERGE	MAINTAIN
Conservation	Preserved	Preserved	Preserved	Preserved
Smart grid	Preserved	Preserved	Preserved	Preserved
Renewables	Preserved	Preserved	Preserved	Preserved
Advocacy	Enhanced	Challenged	Enhanced	Challenged
Local jobs	Depends on specifics	Depends on specifics	Depends on specifics	Preserved

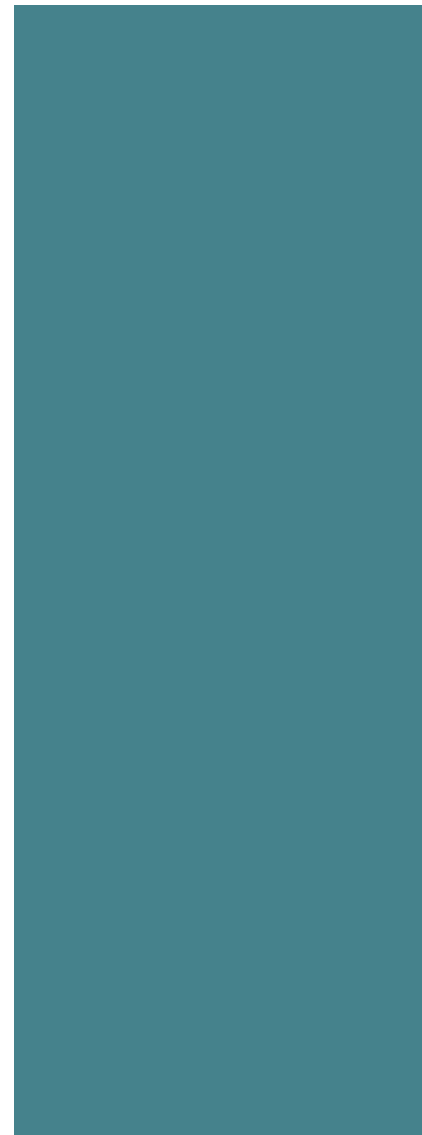
ASSESSMENT OF OPTIONS

CITY	BUY	SELL	MERGE	MAINTAIN
Best value	Pay to buy now, increase dividends over time	Lump sum replaces dividends	Should increase dividends over time	Status quo dividends
Cost-effectiveness	Enhanced	Enhanced	Enhanced	Challenged
Contribute capital	Challenged	Enhanced	Challenged	Challenged
Economic development	Preserved	Depends on specifics	Depends on specifics	Preserved

RECOMMENDATIONS



ENERGIZING
TOMORROW



RECOMMENDATIONS

1. THAT the Strategies and Options Committee further examine the following options for Guelph Hydro Electric Systems Inc:
 - a) Sale of all or part of Guelph Hydro to one or more interested purchasers; and
 - b) Merger of Guelph Hydro with one or more other local electricity distribution companies.

RECOMMENDATIONS

2. THAT in carrying out Recommendation 1, the Strategies and Options Committee:
 - a) conduct an environmental scan of potential transaction partners and potential transactions, with the assistance of an independent advisor, in order to compare the sale and merger options against maintaining full ownership;
 - b) enter into preliminary discussions with potential transaction partners to discover whether a sale or merger could satisfy the decision-making criteria adopted by the Strategies and Options Committee; and
 - c) continue its public and stakeholder engagement to inform its work,

but, without receiving further Council direction, Strategies and Options Committee shall not make commitments to any potential transaction partner, whether binding or not, apart from entering into confidentiality agreements and other ancillary agreements to complete its preliminary assessment of a potential transaction.

RECOMMENDATIONS

3. THAT the Strategies and Options Committee report back to Council by mid-2017 with the results of the examination and a recommendation regarding next steps.

QUESTIONS



Ask us anything

ENERGIZINGTOMORROW.CA

DELEGATION TO:

SPECIAL CITY COUNCIL as SHAREHOLDER of GMHI MEETING 15 FEB 17

IT IS REQUESTED THAT :

There be NO action be taken to sell all or part of Guelph Hydro to one or more interested purchasers and NOT to merge Guelph Hydro with one or more local electricity distribution companies ("LDC's).

THE REASONS FOR THE 2 ABOVE REQUESTS ARE:

Guelph Hydro is a city owned asset that generates a revenue stream for the city and that revenue stream is of benefit to Guelph residents.

Guelph Hydro is a well run corporation that delivers electricity to Guelph residents and businesses in a continuously efficient seldom interrupted manner.

Glen N. Tolhurst P.Eng MBA

Guelph ON